

STATEMENT OF HONORABLE FREDERICK H. MUELLER,
SECRETARY OF COMMERCE, BEFORE THE COMMITTEE
ON POST OFFICE AND CIVIL SERVICE OF THE HOUSE OF
REPRESENTATIVES RESPECTING PROPOSED FEDERAL
EMPLOYEE PAY INCREASES

April 27, 1960

Mr. Chairman and Members of the Committee:

You have asked me to appear today to discuss the general question of pending legislation to increase the pay of federal employees. I wish to discuss the general question of federal compensation in relation to its fiscal consequences and in terms of sound principles for employee compensation, rather than to go into detail about any particular bill.

It is extremely difficult to speak on a question of this type because it is so closely bound up with human emotions, with the basic desire to earn more, to have more of the material things of life, more leisure, or perhaps more security. In addition, most of us are inclined to develop the opinion that we are underpaid. Moreover, my years of public service, first in Michigan and more recently in Washington, have convinced me as to the basically high quality of public employees and the propriety of entirely adequate and systematic pay systems. In other words, I favor a truly adequate level of compensation for public employees as well as one that can be referred to as being a truly modern system.

The easy approach would be to favor substantial boosts and thereby gratify many persons in the federal government. But under current conditions such a position would be a failure in duty both to the people of the

United States and to federal workers themselves. The huge sums that would be necessary to finance the proposals not only would impose a heavy burden on taxpayers at a time all expenses of federal, state and local governments are high, but the action would be inflationary in itself and would trigger even worse inflation.

It is my understanding that the various proposals pending before you call for pay raises ranging from 12 percent to 23 percent and would produce in general another horizontal increase in existing pay scales with little in the way of internal adjustments as between the grades. It is also my understanding that the Bureau of the Budget estimate suggests an annual increase of about \$1.6 billion in the cost of federal compensation. I am opposed to increases of such amounts and types, first because of their fiscal and economic consequences and second, because they fail to solve some of the basic difficulties existing within the federal pay system. I will try to explain my reasons for this position briefly.

Every employer in determining his wage policies finds it necessary to give consideration to two limiting factors. On the one hand, he must pay the going rate in his area or he must be content with inexperienced and inefficient employees if indeed he is able to obtain an adequate work force at all. On the other hand, he is unable to pay more than the employee produces within the organization. Any pay made in excess of productivity will cut into operating profits or lead to increased prices for the goods or services. Whenever general pay levels are

increased more than warranted by improvements in employee productivity, the result must take the form of higher prices.

Most of the operations of government are service operations. With a few exceptions, government services are essential facilitating services which are incapable of evaluation in terms of productivity. As is true in industry generally, government has been improving its efficiency over the years through better selection and training of employees and through more efficient use of these employees.

It is doubtful, however, if this improving federal efficiency or greater productivity exceeds that experienced by industry generally and, since it deals with a nonmarketed product, it is necessary to turn to some other standard of determining the worth of, or the proper pay levels for, the federal employee. This standard can best be one of reasonable comparability with the pay scales of private employment. We must pay amounts about equal to the pay of private employees if we are to obtain a continuing supply of high quality people for the government service. By doing this we can assure the federal employee that he will share in the progress of industry. We can assure the taxpayer that he is paying the going rate for the government services he demands.

I do not believe that either government efficiency or private labor productivity has increased in the past two years sufficiently to warrant pay increases anywhere in the range of increases proposed by pending legislation. Moreover, experience has shown that where a large segment of our

economy is granted an across-the-board increase, a like demand for wage increases is voiced by other segments of the economy. This whip-saw effect can only result in further inflation as each group strives to improve its position relative to the other segments. Therefore, I believe that such increases would be inflationary in their consequences both directly and as a result of creating a budget deficit.

A far greater difficulty with pending legislation, which calls for general increases, is that the various disparities or distortions introduced in recent years would remain. During the past twenty years there have been seven general increases in the federal pay scale with only the last increase being horizontal in character. All of the others have served to compress the prewar pay scale through fairly substantial increases at the lowest level and very small increases at the upper levels. Today, the GS-1 receives \$2,960 vs. \$1,260 twenty years ago, while the GS-15 receives \$12,770 vs. \$8,000, or increases of 135 percent and 60 percent respectively. Moreover, none of these adjustments can be truly said to have given adequate consideration to the prevailing scales paid in industry and it has become a widely held belief that most of the lower grade positions are paid reasonably well in relation to private employment and that many of the middle and upper levels are paid relatively poorly. The addition of a limited number of super grades has provided only a partial solution to this phase of the problem.

What should be considered in the federal service is a regular systematic reporting of rates paid under competitive pay systems in all of

1 the areas where employment is reasonably comparable between industry and government. We must be sure that the government employee will not suffer any monetary loss or sacrifice for having chosen the public service, and we must give the public administrator assurance that he can obtain at all times his fair share of the available working force. We must avoid the situation where graduate engineers are paid less than the skilled craftsman whom they may be asked to supervise. We must be in a position to compete each year at the colleges and universities with the employment officers of large corporations. We must compete both in terms of entering wages and prospects for advancement. Finally, having established such a system, there must be some organized basis for continuing joint study by the administration and the legislative committees to assure that the system is maintained on a reasonably competitive basis.

The information necessary for this competitive wage system is now being gathered by the Bureau of Labor Statistics and will be available late this summer. Out of this study I think we will be able to evolve an equitable system which will result in compensation exceeding that currently prevailing in certain classifications and we will be able to do this without reducing the pay rate of any of the present employees. We will be in a far better position to afford the costs of a pay scale that is fair and equitable at all levels if we defer general horizontal pay increase at this time.

I believe that we can afford the cost of an adequate pay system. I do not believe we can afford the cost or inflationary consequences of perpetuating a distorted pay system at a higher level.